Fayette County
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NOTES TO THE FINANCIAL STATEMENTS

Fayette County, Georgia
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE INDEX

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Fayette County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of Fayette County are described below.

A. Reporting Entity

Fayette County, Georgia (the "County") was established in 1821 and is a body corporate and politic organized and existing under the Constitution and laws of the State of Georgia. The County operates under a Commission-Administrator form of government and provides the following services as authorized by its charter: Public Safety, Public Works, Culture, Recreation, Community Services, and other General Government Services.

The governing authority of the County is a Board of Commissioners, consisting of five part-time members, who serve for four-year staggered terms. The Board appoints the County Administrator, who serves as the County's chief administrative officer. The County Administrator is responsible for the daily operations of all County functions in accordance with the policies of the Board of Commissioners.

As required by generally accepted accounting principles, these financial statements present Fayette County, Georgia and its' component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the Government-wide financial statements to emphasize that they are legally separate from the County. Each of these governmental entities also has a fiscal year ending June 30.

Blended Component Unit. Blended component units, although legally separate entities, are in substance, part of the Government's operations.

The Fayette County Public Facilities Authority is governed by a three-member board appointed by the County's Board of Commissioners. Although it is legally separate from the County Government, the Public Facilities Authority is reported in the CAFR as if it were part of the primary government because it serves as a financial conduit for debt issued to construct/maintain public buildings and related projects. This authority is reported as the Criminal Justice Center Capital Projects Fund, which is a major governmental fund. No separate financial statements are issued by the Fayette County Public Facilities Authority.

Discretely Presented Component Units. Discretely presented component units are reported in a separate column in the Government-wide financial statements to emphasize they are legally separate from the government.

The Fayette County Development Authority is responsible for promoting industrial and commercial development within Fayette County. The Board of Commissioners appoints the members of the Authority's governing board to staggered terms. The Development Authority is responsible for adopting its own annual budget and making its own operating decisions. However, Fayette County does provide substantial financial support each year and has contractually obligated itself to use its taxing power to guarantee the repayment of principal and interest on certain industrial revenue bonds issued by the Authority. The Fayette County Development Authority is presented as a governmental fund type.

The Fayette County Department of Public Health is responsible for providing environmental and physical health

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity - Continued

services to the citizens of Fayette County. The Board of Commissioners appoints the majority of the members of the Health Department's governing board. The Board of Commissioners reviews the proposed annual budget of the Health Department and makes a decision as to the County's funding contribution level for each fiscal year.

The County also provides this entity with free office space at the Stonewall Village Administrative Complex. The Fayette County Department of Public Health is presented as a governmental fund type. Complete financial statements for each of the individual component units can be obtained at the entity's administrative office. Their addresses are shown below:

Fayette County Development Authority
200 Courthouse Square
Fayetteville, Georgia 30214

Fayette County Department of Public Health
140 Stonewall Avenue, West
Suite 107
Fayetteville, Georgia 30214

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

Government-wide Financial Statements

Government-wide financial statements (i.e. the statement of net assets and the statement of activities) display information about the reporting government as a whole, except for its fiduciary activities. These statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Government-wide financial statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for the support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. Program revenues include charges for services, fines and forfeitures, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

wide financial statements rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of liability, rather than as an expenditure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

The underlying accounting system of the Government is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and proprietary funds. The fiduciary fund statements include financial information for the agency funds. These funds represent assets held by the Government in a custodial capacity for individuals or other governments.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Governmental Funds are used to account for the County's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. Fayette County considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest are susceptible to accrual. Sales taxes collected and held by the State of Georgia at year-end on behalf of the County are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the County and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if susceptible to accrual criteria. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

Fund Financial Statements - Continued

Major governmental funds include:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *SPLOST County Wide Roads Construction in Progress Fund* accounts for the construction of roads, streets, and bridges within the county. Financing is derived from a 1% Special Purpose Local Option Sales Tax passed by voter referendum on November 2, 2004.

The *Fire District Special Revenue Fund* accounts for fire protection within the fire district. Financing is derived principally from a special tax levy against property owners.

The *Criminal Justice Center Capital Projects Fund* accounts for the construction, including additional jail space, a jail administrative building, a three story judicial complex, parking lot and renovation of the existing Court/Sheriff annex.

Additionally, the government reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The *Capital Projects Funds* account for the acquisition of fixed assets or construction of capital projects not being financed by proprietary fund types.

Proprietary Funds are accounted for on the flow of economic resources management focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* the County has chosen to apply all GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 to account for the proprietary funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's proprietary funds are charges to customers for sales and services. Operating expenses for these funds included the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses and capital contributions.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when the service is received and the related liability is incurred. All utility service receivables are recorded at year end.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

B. Measurement Focus, Basis of Accounting, and Basis of Presentation - Continued

Major proprietary funds include:

Water System Fund accounts for the County's water system's operations serving approximately 26,935 customers in unincorporated County and through the System owned distributions in Peachtree City, Tyrone, Woolsey, and parts of Brooks and Fayetteville.

Other proprietary funds include:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. Solid Waste is the other County proprietary fund.

Internal Service Funds account for operations that provide services to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis. The County uses the following Internal Service Funds: Worker's Compensation, Dental and Vision Self-Insurance Funds and Vehicle Replacement Fund.

Fiduciary Funds account for assets held by the County in a trustee capacity or as an agent on behalf of others.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that Fayette County holds for others in an agency capacity. The County's combining statements of Fiduciary Funds are located on pages 84-85. Fayette County's agency funds are:

Tax Commissioner - to account for the billing, collection and remittance of taxes to the County, Board of Education, Municipal Governments, and the State of Georgia.

Sheriff - to account for the collection and remittance of fines, costs, and bond forfeitures to the County.

Juvenile Court - to account for the collections of fines and settlements and the subsequent remittance to the applicable parties.

Magistrate Court - to account for the collection of charges for court costs, filings and settlements and the subsequent remittance to the applicable parties.

Probate Court - to account for the collections of fines and settlements and the subsequent remittance to the applicable parties.

State Court - to account for the collection of charges for court costs, filings and settlements and the subsequent remittance to the applicable parties.

Superior Court - to account for the collection of charges for court costs, filings and settlements and the subsequent remittance to the applicable parties.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

B. Measurement Focus, Basis of Accounting, and Basis of Presentation - Continued

Basis of Presentation

GASB Statement 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/ expenses of either fund category or the Governmental and Enterprise combined) for the determination of major funds. The County has used GASB 34 minimum criteria for major fund determination. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section of this report.

Policy for eliminating internal activity from the Statement of Activities

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and the other charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Non-current Government Assets/Liabilities - GASB Statement 34 requires non-current governmental assets, such as land and buildings, and non-current governmental liabilities, such as general obligation bonds and capital leases, be reported in the governmental activities column in the government-wide statement of net assets.

C. Assets, Liabilities, Equity, and Revenues

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, funds on deposit in the Georgia Fund 1 State Investment Pool, and other short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the Proprietary Fund Statement of Cash Flows, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The statutes of the State of Georgia authorize the County to invest in U.S. Government obligations; U.S. Government agency obligations; State of Georgia obligations; obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "A" or better by Moody's Investors Service, Inc.; negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association; repurchase agreements when collateralized by U.S. Government or agency obligations; and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

In accordance with the provisions of Governmental Accounting Standards Board Statement No. 40, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* the County reports investments at fair value. Money market investments and those investments, which had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost or cost plus accrued interest, which approximates fair value. The fair value of investments in the Georgia Fund 1 State Investment Pool is equal to cost.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

C. Assets, Liabilities, Equity, and Revenues - continued

The fair value of all other investments was calculated using quoted market prices because these prices have been determined to be the most reliable and verifiable and are the most understood by investors, creditors and other users of financial information. All investment income, changes in the fair value of investments, has been reported as revenue in the operating statements.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances between governmental activities and the business type activities are reported on the government-wide financial statements as "internal balances".

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible. The allowance for uncollectible on receivable balances represent estimates based on historical collection rates and account balance aging reports.

Property taxes were levied and billed on September 1, 2005. The billings are considered due upon receipt; however, the actual due date is based on a period ending 60 days after the tax bill mailing or November 15, 2005. On November 16, 2005, the bills became delinquent, the applicable property is subject to lien, and penalties and interest may be assessed by the County. The Tax Commissioner bills and collects those property taxes levied by the County, the Fayette County Board of Education, the municipalities located within the County and the State of Georgia. Collections and remittances to the County and other governmental agencies are accounted for in an agency fund.

All property taxes levied for the current and any previous years, but not received as of June 30, 2006, are shown as property taxes receivable at that date. Any of those taxes, which are determined to be unavailable to pay liabilities of the current period, have been deferred.

A Water receivable has been recorded for services rendered but not billed at June 30, 2006, net of allowance for doubtful accounts of $125,000. The receivable was computed using the cycle billings sent to customers in July and prorating the charges based on the days applicable to the current period.

3. Inventories and Prepaid Items

Inventories in the Water System Enterprise Fund are valued at cost, which approximates market using the first-in, first-out (FIFO) method. Inventories primarily consist of pipe and fittings intended for use in construction of line extensions and to support the maintenance work on the system. In addition, other materials and supplies are maintained to service the vehicles and equipment used in system operations.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

C. Assets, Liabilities, Equity, and Revenues - Continued

Prepaid items represent payments made to vendors for which the benefits are applicable to future accounting periods. Since these assets represent financial resources that are not available for current appropriation or expenditure from the Governmental Fund types, there is a corresponding reservation of the respective fund's fund balance.

4. Restricted Assets

Certain proceeds of the Water System Enterprise Fund revenue bonds, as well as certain resources set aside for their payment are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "revenue bond sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond debt service reserve" account is used to report resources set aside to subsidize the potential future deficiencies in the revenue bond sinking fund account. The "revenue bond renewal and extension" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

5. Capital Assets

Capital assets used in Governmental Fund types of the County are reported in the applicable governmental or business-type activities column in the government-wide financial statements at cost or estimated historical cost if purchased or constructed . Capital assets include property, plant and equipment. Public domain (infrastructure) assets, consist of certain improvements other than buildings such as roads, bridges and sidewalks. Infrastructure assets acquired prior to July 1, 2002, have not been capitalized. In accordance with GASB 34, these infrastructure assets will be recorded by the County in fiscal year ending June 30, 2007.

Capital assets are defined by the County as assets with an initial individual cost of $5,000 or more and an estimated useful life of more than one year. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or do not substantially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Asset Classifications	Years
Building Improvements	10
Buildings	40
Computer Equipment	5
Infrastructure	15-40
Office Equipment	5
Vehicles	7-15

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

C. Assets, Liabilities, Equity, and Revenues - Continued

6. Compensated Absences

County employees are granted vacation and sick leave in varying amounts. It is the County's policy to permit employees to accumulate earned but unused vacation and sick pay benefits up to specified maximum number of hours. In the event of termination of employment, an employee is paid for accrued annual leave days. In addition, regular full-time employees hired before March 1, 1998, with three or more years of service who resign in good standing or retire from service with the County are paid at the rate of $15 for each day of unused sick leave up to a maximum of $900. Governmental Accounting Standards Board Statement No. 16 required employers to report a liability for leave earned by employees whenever the following two criteria have been met: (1) the leave relates to past service; and (2) eventual payment to the employee is considered probable. Only those amounts expected to be paid within sixty days of the fiscal year end are reported in the governmental funds. Compensated absences are reported in governmental funds only if they have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement.)

Vacation and termination sick leave pay are accrued when incurred in Proprietary Funds and reported as a fund liability. On the government wide statements, vacation and termination sick leave pay is accrued and reported as a liability for the governmental activities similar to business-type activities. Vacation and termination sick leave pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental funds that are responsible for payment.

7. Long-term Obligations

The County reports long-term debt of Governmental Funds on the statement of net assets. Long-term debt and other obligations financed by Proprietary Funds are reported as liabilities in the appropriate funds.

For Governmental Fund types, bond premiums and discounts, as well as issuance costs are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For Proprietary Fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

8. Net Assets/Fund Equity

The carrying amount of capital assets less related outstanding debt is reported as a component of net assets called capital assets net of related debt.

Restricted net assets reflect amounts restricted by contracts, laws and regulations for specific purposes such as amounts that have been accumulated in the Debt Service Accounts as well as a working capital reserve as described in the Bond Resolutions.

Fayette County records two general types of reserves. One type (for funds of all types) is used to indicate that a portion of the fund balance or retained earnings is legally segregated for a specific use. An example of this type of reserve is the net excess of restricted assets over liabilities payable from restricted assets shown in the Water

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Assets, Liabilities, Equity, and Revenues - continued

System Enterprise Fund. This segregation of fund equity is required by the bond resolutions. The second type of reserve (for a Governmental Fund type) is to indicate that a portion of the fund balance is not appropriable for expenditures. Examples of this type of reserve would be a reservation of fund balance for prepaid items or encumbrances.

9. Capital Contributions

In accordance with the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the County has recorded capital contributions received by the Water System Enterprise Fund as capital contributions revenue. Capital contributions include amounts received from Federal, State and other governments for aid in construction and development of the Water System. Also included are amounts received from real estate sub-dividers for water line extensions built by sub-dividers and contributed to the Water System, both of which are capitalized as part of the Water System's capital assets. It also includes amounts received for meter, connection and tap fees from sub-dividers and other customers. The actual cost of meter installations has been capitalized as part of the water distribution system.

In the Solid Waste Enterprise Fund, the County has recorded the transfers of plant, property and equipment (net of depreciation) as capital contributions. In addition, some monies received from the operator of the landfill to help offset the costs of water and methane gas monitoring are also recorded as capital contributions.

NOTE I I - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The applicable statues of the State of Georgia require Fayette County to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Because the Board of Commissioners adopts each of its operating budgets at the department level, the applicable State statues require that total expenditures not exceed the total amount of appropriations at the individual department level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all of the Special Revenue Funds. Operating budgets are not prepared for the Internal Service Funds or the Agency Funds. Expenditures for those funds are controlled by legal use restrictions imposed by ordinances. For administrative control purposes, cash flow budgets are adopted for each of the Enterprise Funds.

Project-length plans are adopted for the Capital Projects Funds. The County adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

1. In April of each year, all departments submit requests for appropriation to the County Administrator so that an annual operating budget can be prepared. The budget is prepared by fund, function and department, and includes information on the past year, current year estimates and requested appropriation amounts for the next fiscal year.

NOTE I I - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information - continued

2. Prior to May 1, the County Administrator submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund and the Special Revenue Funds.

3. In late May and early June, public hearings are conducted to obtain taxpayer comments about the proposed budget.

4. Prior to July 1, the budget is legally enacted through the passage of an appropriation ordinance by the Commission.

Operating budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of control (I.e., the level at which the governing body must approve any over expenditures of appropriations or transfers of appropriated amounts) for each legally adopted annual operating budget Fayette County, Georgia is at the departmental level within each fund. Unexpended appropriations lapse at year-end.

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances lapse at year end and are reappropriated on the ensuing year's budget.

Formal budget integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Individual budgets and actual statements are presented for these funds at the department level. To help ensure that each department keeps their spending during the year within its total approved appropriations amount, certain internal administrative controls are utilized. County Department Heads are authorized to approve budget transfers between the various line items expenditures accounts within their departments. All other transfers or supplemental appropriations, which change the total budget for a departmental cost center, must be approved by the Board of Commissioners. During the 2006 fiscal year, several supplementary appropriations were necessary.

In the General Fund, total budget adjustments made during the fiscal year resulted in a net change as follows:

	Budget Adjustment
Increase Revenues	$ (995,250)
Increase Expenditures	61,694
Increase other financing uses	1,310,541
Total Net Change	$ 377,055

NOTE I I - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information - continued

In the Special Revenue Funds, the following increases in appropriations were necessary during the 2006 fiscal year.

Special Revenue Fund	Expenditure
Fire District	$ 11,076
Grants	572,550
Emergency 911	1,333
U.S. Customs/Federal Confiscated Monies	596,236
Street Lights	12,120
Jail Surcharge	40,459
Total Special Revenue Funds	$ 1,233,774

B. Debt Service and Sinking Fund Requirements on Water Revenue Bonds

1. Sinking Fund Requirements

The bond resolutions require the creation and maintenance of a Sinking Fund that is to be used to pay the principal and interest on the Revenue Bonds as they become due. The bond resolutions specifically require that monies be deposited monthly into the Sinking Fund until such time that sufficient funds are on hand to pay the semi-annual interest payments and the bonds as they mature.

During the fiscal year ended June 30, 2006, $3,525,512 was paid from the Revenue Fund into the Sinking Fund (including the Debt Service Reserve Account).

2. Debt Service Reserve

The bond resolutions require the creation and maintenance of a Debt Service Reserve within the Sinking Fund. According to the resolutions, monies are to be transferred each month from the Revenue Fund to the reserve in sufficient amounts so that by July 1, 2007 the reserve will at least be equal to the highest combined principal and interest payments on the Revenue Bonds in any succeeding sinking fund year (October 1 to September 30). The minimum amount required for this reserve is $3,691,665 which represents the debt service for the sinking fund year ending September 30, 2004 (highest combined principal and interest payments). The debt reserve balance at June 30, 2006 is $3,860,931, the sinking fund balances are $1,625,903 for a debt service total of $5,486,834, which is shown as restricted cash in the proprietary funds.

3. Renewal and Extension Fund

After the monthly operating and maintenance expenses have been paid and the required debt service transfers have been made, all monies remaining in the Revenue Fund in excess of a working capital reserve (in an amount not to exceed one month's estimated operating and maintenance expenses) are to be transferred to the Renewal and Extension Fund. The bond resolutions restrict disbursements from this fund to the following:

NOTE I I - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

B. Debt Service and Sinking Fund Requirements on Water Revenue Bonds- continued

3. Renewal and Extension Fund- continued

a. Paying principal and interest on any revenue bonds falling due when there are insufficient funds in the Sinking Fund to make the payment.

b. Emergency expenditures if there are insufficient funds in the Revenue Fund (operating account).

c. Replacements, additions, extensions and improvements to the system in the best interests of the County and bondholders.

d. Payments of investment services for the investment of monies held in the Renewal and Extension Fund (renewal and extension account).

During the fiscal year ended June 30, 2006, $391,332 was transferred from the Water System's operating account to the Renewal and Extension account in compliance with the bond resolutions.

4. Rates and Fee Requirements

In accordance with the bond resolutions, the Water System's schedule of rates, fees, and charges for services shall be maintained at such a level so as to produce net revenues (after payment of reasonable and necessary cost of operating and maintaining the system) equal to at least 1.20 times the amount required to be paid into the Sinking Fund and the Debt Service Reserve in the current sinking fund year. This ratio is computed annually. For the year ended June 30, 2006, the County was in compliance with this requirement.

NOTE I I I - DETAILED NOTES ON ALL FUNDS

A. Cash, Cash Equivalents, and Investments

Following is a reconciliation of the County's deposit and investment balances as of June 30, 2006.

	Pooled Cash and Investments	Cash on Hand	Total
Bank Deposits	$ 83,290,579	$ 1,750	$ 83,292,329
Investments	25,828,169	-	25,828,169
Total	$ 109,118,748	$ 1,750	$ 109,120,498

	Government-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total
Pooled Cash/Cash Equivalents	$ 38,422,569	$ 4,285,026	$ 42,707,595
Restricted Cash	40,584,734		40,584,734
Unrestricted Investments	20,241,636		20,241,636
Restricted Investments	5,586,533	-	5,586,533
Total	$ 104,835,472	$ 4,285,026	$ 109,120,498

NOTE I I I - DETAILED NOTES ON ALL FUNDS

A. Cash, Cash Equivalents, and Investments- continued

1. Cash Deposits

At June 30, 2006, the carrying amount of the County's deposits were $109,120,498 and the bank balances were $111,773,399 of the bank balances, $400,000 was covered by Federal Depository Insurance Corporation and the remaining $111,373,399 was covered by collateral held in the pledging banks' trust department in the County's name. There were no deposits uninsured or uncollateralized at June 30, 2006.

The blended component units' bank balances are presented as the fiduciary funds in the table on page 40, see pages 84-85, for detail of the agency accounts. Fayette County's agency funds are; Tax Commissioner, Sheriff, and Juvenile, Magistrate, Probate, State, and Superior Courts (elected officials of Fayette County).

State statutes and bond resolutions require that all deposits be collateralized by depository insurance; obligations of the United States or certain obligations guaranteed by the U.S. Government; obligations of the State of Georgia; and obligations of other counties, municipal corporations and subdivisions of the State of Georgia. The collateral pledged by the banks' trust department in the County's name is composed of various bonds of the U.S. Government Agencies and bonds of public authorities, counties and municipalities of the State of Georgia.

2. Investments

Georgia Fund 1, which was created by the Official Code of Georgia Annotated ("OCGA") 36-83-8, is a stable net asset value investment pool, which follows Standard and Poor's criteria for AAA rated market funds. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the Securities and Exchange Commission as an investment company. The Georgia Office of Treasury and Fiscal Services is the regulatory oversight agency of Georgia Fund 1. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal ($1.00 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on $1.00 per share.

As of June 30, 2006, the carrying values of the County's investments were as follows:

Georgia Fund 1 (LGIP)	AAAm rated	$ 32,941,456	24 day Weighted Average Maturity Method

As of June 30, 2006, the carrying values of the Water System's investments were as as follows:

Georgia Fund 1 (LGIP)	AAAm rated	$ 7,766,104	24 day Weighted Average Maturity Method

NOTE I I I - DETAILED NOTES ON ALL FUNDS

2. Investments

Primary Government's Investment Policy

Fayette County's policy establishes a framework for implementing such safeguards, authorized particular types of allowable investment instruments, and creates oversight responsibilities of investment activities. The overriding purpose of this policy is to acknowledge clearly that any investment instrument or decision carries with it certain elements of risks. There are, however, numerous safeguards that can be instituted to minimize such risks while endeavoring to earn a market rate of return.

Fayette County's investment objectives in order of priority are: (1) legality, (2) safety of principal, (3) maintenance of adequate liquidity, and (4) return on investments.

Funds of Fayette County will be invested in compliance with the provisions of Georgia Code Section 36-83-4 and in accordance with these policies and any written administrative procedures. Certain funds have outstanding bond issues which have specific investment policies contained within the bond ordinances and official statements. Those policies will be adhered to and are not in conflict with the terms of this policy.

Acceptable investments, set forth in Georgia Code Section 36-83-4 are:

- Obligations of the State of Georgia or of other states
- Obligations issued by the United States Government
    - U.S. Treasury Bills
    - U.S. Treasury Notes
    - U.S. Treasury Bonds
- Obligations fully insured or guaranteed by the United States Government or a United States Government Agency
- Repurchase agreements backed by the U.S. Government or U.S. Government Agency
- Prime Banker's Acceptances; that are eligible for purchase by the Federal Reserve bank and have a Letter of Credit rating of A+ or better.
- Local Government Investment Pool (LGIP)
- Obligations of other Political subdivisions of the State of Georgia
- Time deposits and savings deposits of banks organized under the laws of Georgia or the U.S. Government and operating in Georgia

The following guidelines represent maximum limits established for diversification by instrument by the Fayette County Board of Commissioners.

• U.S. Treasury Obligations	100%
• U.S. Government Agency Securities and Securities issued by Instrumentalities of Government Sponsored Corporations	50%
• Repurchase Agreements	25%

NOTE I I I - DETAILED NOTES ON ALL FUNDS

2. Investments-continued

• Prime Banker's Acceptances	10%
• Local Government Investment Pool	100%
• Certificates of Deposit	50%
• Obligations of other political subdivisions of the State of Georgia	25%

Interest Rate Risk:

As a means of limiting exposure to fair value losses arising from rising interest rates, the County's Policy limits the investment of operating funds to investments with a stated maturity of no more than 5 years from the date of purchase.

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities.

B. Capital Assets

Capital Assets for the County for the fiscal year ended June 30, 2006, are shown in the following tabulation.

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 8,894,227	$ -	$ -	$ 8,894,227
Total capital assets not being depreciated	8,894,227	-	-	8,894,227
Capital assets being depreciated:				
Buildings and Structures	68,589,281	80,800	(357,455)	68,312,626
Improvements other than buildings	3,144,716	175,117	-	3,319,833
Machinery and equipment[1]	12,978,901	1,218,903	(146,651)	14,051,153
Governmental-type assets being depreciated	84,712,898	1,474,820	(504,106)	85,683,612
Internal service funds being depreciated:				
Equipment	3,715,785	-	-	3,715,785
Vehicles[1]	9,096,197	745,084	(331,818)	9,509,463
Internal service fund assets being depreciated	12,811,982	745,084	(331,818)	13,225,248
Total capital assets being depreciated	97,524,880	2,219,904	(835,924)	98,908,860
Less accumulated depreciation for:				
Buildings and Structures	9,170,638	1,961,335	(133,595)	10,998,378
Improvements other than buildings	2,211,621	155,996	-	2,367,617
Machinery and equipment	7,007,188	1,616,908	(95,864)	8,528,232
Vehicles	291,849	79,206	(48,044)	323,011
Total General Fund	18,681,296	3,813,445	(277,503)	22,217,238
Internal Service Fund :				-
Machinery and equipment	2,570,335	153,885		2,724,220
Vehicles:	6,528,585	727,430	(330,882)	6,925,133
Total Internal Service Fund	9,098,920	881,315	(330,882)	9,649,353
Total accumulated depreciation	27,780,216	4,694,760	(608,385)	31,866,591
Total capital assets being depreciated, net	69,744,664	(2,474,856)	(227,539)	67,042,269
Governmental activity capital assets, net	$ 78,638,891	$ (2,474,856)	$ (227,539)	$ 75,936,496

[1]The machinery and equipment balance for fiscal year ended June 30, 2005 was understated by $41,534 as it had been included with the Internal Service Fund vehicle balance. The beginning balances for fiscal year 2006 have been adjusted.

NOTE I I I - DETAILED NOTES ON ALL FUNDS

B. Capital Assets-continued

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water System:				
Land	$ 14,948,119	$ -	$ -	14,948,119
Construction in process	5,793,576	2,171,636	(1,712,711)	6,252,501
Total capital assets not being depreciated	20,741,695	2,171,636	(1,712,711)	21,200,620
Capital assets being depreciated:				
Buildings and Structures	43,158,874	242,819	-	43,401,693
Infrastructure	68,244,612	3,130,348	-	71,374,960
Improvements other than buildings	10,877,671	-	-	10,877,671
Machinery and equipment	8,927,440	118,151	(125,896)	8,919,695
Total capital assets being depreciated	131,208,597	3,491,318	(125,896)	134,574,019
Less accumulated depreciation for:				
Buildings and Structures	11,835,797	1,575,360	-	13,411,157
Infrastructure	20,203,246	1,872,181	-	22,075,427
Improvements other than buildings	5,741,587	516,498	-	6,258,085
Machinery and equipment	5,309,467	474,619	-	5,784,086
Total accumulated depreciation	43,090,097	4,438,658	-	47,528,755
Total capital assets being depreciated, net	88,118,500	(947,340)	(125,896)	87,045,264
Water System capital assets, net	108,860,195	1,224,296	(1,838,607)	108,245,884
Solid Waste:				
Land	16,517	-	-	16,517
Total capital assets not being depreciated	16,517	-	-	16,517
Capital assets being depreciated:				
Buildings and Structures	301,172	-	-	301,172
Improvements other than buildings	100,170	20,000		120,170
Machinery and equipment	252,478	-	-	252,478
Total capital assets being depreciated	653,820	20,000	-	673,820
Less accumulated depreciation for:				
Buildings and Structures	276,866	9,033	-	285,899
Improvements other than buildings	58,181	6,978	-	65,159
Machinery and equipment	232,474	5,696	-	238,171
Total accumulated depreciation	567,521	21,707	-	589,229
Total capital assets being depreciated, net	86,299	(1,707)	-	84,591
Solid Waste capital assets, net	102,816	(1,707)	-	101,108
Business-type capital assets, net	108,963,011	1,222,589	(1,838,607)	108,346,992

NOTE I I I - DETAILED NOTES ON ALL FUNDS

B. Capital Assets-continued

Depreciation expense was charged to functions as follows:

Governmental-type assets:	Current Provision	Accumulated Depreciation
General Government	$ 2,114,005	$ 12,182,702
Judicial System	25,550	463,811
Public Safety	1,389,064	5,827,460
Public Works	49,034	286,826
Planning & Community Development	3,082	39,805
Parks, Recreation and Culture	232,710	3,416,633
Total Governmental	$ 3,813,445	$ 22,217,237
Internal Service Fund	$ 881,315	$ 9,649,353
Total	$ 4,694,760	$ 31,866,590

The cost of capital assets acquired through a capital lease program total $7,760,000, $6,603,899 in buildings and structures class and $1,156,101 in machinery and equipment class. The future lease payments are included in Note D.

C. Interfund Receivables and Payables

The purpose of interfund receivables and payables is to meet temporary cash flow requirements and timing differences between receiving and recognizing certain revenues.

Interfund transfers for the year ended June 30, 2006 consisted of the following amounts:

Major Governmental Funds' Transfers:		
Transfers from General Fund		
To:	Non-Major Special Revenue Funds	$ 106,116
	Non-Major Capital Project Funds	6,106,482
	Vehicle Replacement Fund	1,229,575
		$ 7,442,173
Transfers from Fire Fund		
To:	General Fund	$ 7,797
	Non-Major Capital Project Funds	22,616
	Vehicle Replacement Fund	351,926
		$ 382,339
Major Proprietary Fund Transfers		
Transfers from Water System Fund		
To:	General Fund	$ 589,904
		$ 589,904

NOTE I I I - DETAILED NOTES ON ALL FUNDS

C. Interfund Receivables and Payables - continued

Non-major Governmental Funds:

Transfers from Non-Major Special Revenue Fund (Grants)

To:	Non-Major Capital Project Fund	$	53,472
		$	53,472

Transfers from Non-Major Special Revenue Fund (Street Lights)

To:	General Fund	$	1,000
		$	1,000

Transfers from Non-Major Capital Project Funds

To:	General Fund	$	500
		$	500

The purpose of the interfund transfers is to recognize budget funds appropriated for fiscal year 2006 and funds received through donations for specific projects or funds. During fiscal year 2006, amounts totaling $7,442,173 were transferred from the General Fund to various other funds. Of that amount, $6,134,672 was used to fund Capital Projects including $4,563,599 for new parks - Recreation. An amount totaling $1,229,575 was used to continue providing funding for the vehicle replacement program.

During fiscal year 2006, the Water System was charged $589,904 for overhead cost allocation including administration, finance, budgeting, purchasing, information systems, human resources, and marshal services.

D. Leases

The County entered into an equipment lease-purchase agreement with Motorola, Inc. on December 27, 2002 for an 841 Mhz Radio System with six satellites and one prime site. The total purchase price was $7,760,000. Under the terms of the financing the County is required to make annual lease payments in the amount of $993,761 covering a ten-year lease term. At June 30, 2006, the County was obligated to make payments of principal and interest as follows:

Cost of leased assets	$	7,760,000
Accumulated depreciation		1,275,998
Value of assets	$	6,484,002

Fiscal years ending June 30,		Principal		Interest		Total Debt Service
2007	$	717,428	$	276,334	$	993,762
2008		751,612		242,150		993,762
2009		787,423		206,338		993,761
2010		824,941		168,820		993,761
2011		864,247		129,514		993,761
2012-2013		1,853,991		133,531		1,987,522
Totals	$	5,799,642	$	1,156,687	$	6,956,329

NOTE I I I - DETAILED NOTES ON ALL FUNDS

E. Closure and Postclosure Care Cost

Current State and Federal laws and regulations require the County to place a final cover on its landfill sites when municipal solid waste is no longer accepted, and to perform certain maintenance and monitoring functions at these sites for a minimum of five years after closure. Fayette County closed the Grady Avenue Landfill in 1988 and First Manassas Mile Road (FMMR) Sanitary landfill in June of 1994. The County has entered into a contractual agreement with an outside contractor to lease an unused part of the old FMMR landfill site as a waste transfer station.

Governmental Accounting Standards Board, Statement No. 18, requires that the County report closure and postclosure care costs as an operating expense in each reporting period based on landfill capacity used. balance sheet date. With the closing of both of its sanitary landfills prior to June 30, 1994, the Solid Waste Enterprise Fund recognized 100% of the total estimated amount of the closure and postclosure care cost. As of June 30, 2006 the closure and postclosure care liability account had a zero balance. EPD provides estimates of the cost, there is a potential for change due to inflation, deflation, technology or applicable laws or regulations.

F. Long-Term Debt

General Obligations Bonds. Periodically, the County issues general obligation bonds to provide funds for the acquisition and construction of major general government capital facilities. General Obligation (G.O.) bonds are direct obligations and pledge the full faith and credit of the government. The County currently has no general obligation bonds outstanding.

Revenue Bonds. The County issues bonds where the issuer pledges income derived from the acquired or constructed assets to pay debt service.

The County issued revenue bonds for the construction of capital assets, which are currently outstanding and reported in the Water System Enterprise Fund as follows:

	Debt
$10,245,000 Series 1996A, Water Revenue Bonds, due in annual installments of $25,000 to $920,000 through October 1, 2020; interest at 3.6% to 5.5%, net of unamortized bond discount of $5,219, deferred refunding difference of $183,868.	$ 5,170,000
$18,090,000 Series 1998, Water Revenue Bonds, due in annual installments of $130,000 to $3,325,000 through October 1, 2028; interest at 3.7% to 5.00%, net of unamortized bond discount of $84,341, deferred refunding difference of $590,589.	16,115,000
$22,670,000 Series 2002, Water Revenue Bonds, due in annual installments of $50,000 to $2,250,000 through October 1, 2032; interest at 3.25% to 5.125%, net of unamortized bond discount of $67,460, deferred refunding difference of $775,672.	21,455,000
Current Portion and Long Term Portion of Revenue Bonds	$ 42,740,000

NOTE I I I - DETAILED NOTES ON ALL FUNDS

F. Long-Term Debt - Continued

The following includes a summary of Water System revenue bond transactions for the fiscal year ended June 30, 2006:

Water Revenue Bond	Balance, July 1, 2005	Additions	Reductions	Balance, June 30, 2006	Current Portion
Series 1996A	$ 5,855,000	$ -	$ 685,000	$ 5,170,000	$ 715,000
Series 1998	16,540,000	-	425,000	16,115,000	440,000
Series 2002	21,875,000	-	420,000	21,455,000	435,000
Total Water Revenue Bonds	44,270,000	-	1,530,000	42,740,000	$ 1,590,000
Less the Unamortized Portion of :					
Refunding Difference	(1,667,005)	-	(116,876)	(1,550,129)	
Bond Discounts	(172,128)	-	(15,108)	(157,020)	
Net Water Revenue Bonds	$ 42,430,867	$ -	$ 1,398,016	$ 41,032,851	

At June 30, 2006, the County was obligated to make payments of principal and interest on its outstanding water revenue bond debt as follows:

Fiscal years ending June 30,	Principal	Interest	Total Debt Service
2007	$ 1,590,000	$ 2,054,350	$ 3,644,350
2008	1,660,000	1,985,224	3,645,224
2009	1,730,000	1,911,311	3,641,311
2010	1,810,000	1,831,113	3,641,113
2011	1,890,000	1,744,949	3,634,949
2012-2016	10,865,000	7,265,456	18,130,456
2017-2021	13,900,000	4,137,778	18,037,778
2022-2026	7,265,000	971,010	8,236,010
2027-2031	1,375,000	349,769	1,724,769
2032-2033	655,000	33,953	688,953
Totals	$ 42,740,000	$ 22,284,913	$ 65,024,913

In June 2000, the Fayette County Public Facilities Authority (a blended component unit) issued $55,250,000 of Series 2000 Revenue Bonds with an average interest rate of 5.87 percent to construct a new Criminal Justice Center. In September 2001, the Fayette County Public Facilities Authority issued $50,435,000 of Series 2001 Refunding Revenue Bonds with an average interest rate of 3.82 percent to partially advance refund $45,570,000 of the Series 2000 bonds. The net proceeds of $49,668,979 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2000 bonds. As a result, $45,570,000 of the Series 2000 bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt group.

The Fayette County Public Facilities Authority advance refunded the Series 2000 bonds to reduce its total debt service payments by almost $3.4 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1.8 million.

NOTE I I I - DETAILED NOTES ON ALL FUNDS

F. Long-Term Debt - Continued

The following includes a summary of the Fayette County Public Facilities Authority revenue bond transactions for the fiscal year ended June 30, 2006:

	Balance, July 1, 2005	Additions	Reductions	Balance, June 30, 2006	Current Portion
Series 2000 revenue bonds	$ 5,355,000	$ -	$ 965,000	$ 4,390,000	$ 1,015,000
Series 2001 refunding revenue bonds	49,065,000	-	200,000	48,865,000	205,000
Total Revenue Bonds	$ 54,420,000	$ -	$ 1,165,000	$ 53,255,000	$ 1,220,000

At June 30, 2006, the County was obligated to make payments of principal and interest on the Series 2000 and Series 2001 Fayette County Public Facilities Authority outstanding revenue bond debt as follows:

Fiscal years ending June 30,	Principal	Interest	Total Debt Service
2007	$ 1,220,000	$ 2,623,656	$ 3,843,656
2008	1,280,000	2,562,682	3,842,682
2009	1,345,000	2,497,852	3,842,852
2010	1,415,000	2,428,583	3,843,583
2011	1,490,000	2,353,978	3,843,978
2012-2016	8,470,000	10,736,860	19,206,860
2017-2021	10,720,000	8,483,388	19,203,388
2022-2026	13,685,000	5,527,250	19,212,250
2027-2030	13,630,000	1,745,000	15,375,000
Totals	$ 53,255,000	$ 38,959,249	$ 92,214,249

Advance Refunding. In prior years, the County advance refunded certain water revenue bonds by placing the proceeds of the new bond issues in irrevocable trusts with escrow agents for the purpose of generating resources for all future debt service payments of the refunded debt. With this financial arrangement, the refunded bonds are considered to be defeased in substance. Accordingly, the trust account assets and liability for the defeased bonds are not included in the County's financial statements.

At June 30, 2006, $45,940,000 of outstanding revenue bonds are considered defeased. Fayette County Public Facilities Authority defeased bond amount is $45,570,000 and the Water System's defeased bonds are $370,000.

Georgia Environmental Facilities Authority (GEFA) Loans. The Georgia Environmental Facilities Authority is a State agency which offers low interest financing to other political subdivisions of the State of Georgia for their water and sewer capital needs. The Water System Enterprise Fund has received nine GEFA loans for various water system construction projects.

NOTE I I I - DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-Term Debt - Continued

At June 30, 2006, the Water System Enterprise Fund's long-term liabilities included the following loans:

$116,270 represents the principal balance remaining on the original loan amount of $593,063 for the construction of the Quarters Road water line. This December 1988 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $12,574 beginning March 1, 1989. The interest rate is 5.8% over the life of the loan. The current principal portion of the loan is $44,510. The debt is serviced through the Water System Enterprise Fund.

$135,415 represents the principal balance remaining on the original loan amount of $603,000 for the construction of the Crabapple water tank. This June 1989 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $12,280 beginning September 1, 1989. The interest rate is 5.3% over the life of the loan. The current principal portion of the loan is $42,783. The debt is serviced through the Water System Enterprise Fund.

$408,920 represents the principal balance remaining on the original loan amount of $797,000 for the construction of Phase 1 of the Water Line Looping Project. This August 1994 loan was made by GEFA for a period of twenty years and payable in quarterly installments of $15,109 beginning November 1, 1994. The interest rate is 4.8% for the life of the loan. The current principal portion of the loan is $41,549. The debt is serviced through the Water System Enterprise Fund.

$709,813 represents the principal balance remaining on the original loan amount of $1,434,000 for the construction of Phase 2 of the Water Line Looping Project. This February 1995 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $26,948 beginning March 1, 1996. The interest rate is 5.12% over the life of the loan. The current principal portion of the loan is $72,833. The debt is serviced through the Water System Enterprise Fund.

$682,073 represents the principal balance remaining on the original loan amount of $1,450,000 for the construction of Phase 5 of the Water Line Looping Project. Of the original loan amount, $209,766 was not needed for the project and was returned to the Georgia Loan Fund. This May 1995 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $21,978 beginning October 1, 1996. The interest rate is 5.6% over the life of the loan. The current principal portion of the loan is $50,769. The debt is serviced through the Water System Enterprise Fund.

$1,206,418 represents the principal balance remaining on the original loan amount of $2,087,000 for the construction of Phase 3 of the Water Line Looping Project. Of the original loan amount, $321,290 was not needed for the project and was returned to the Georgia Loan Fund. This September 1996 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $41,978 beginning November 1, 1996. The interest rate is 5.16% over the life of the loan. The current principal portion of the loan is $81,369. The debt is serviced through the Water System Enterprise Fund.

$1,535,295 represents the principal balance remaining on the original loan amount of $2,000,000 for the construction of Phase 4 of the Water Line Looping Project. This September 1999 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $40,027 beginning November 1, 1999. The interest rate is 5.10% over the life of the loan. The current principal portion of the loan is $83,385. The debt is serviced through the Water System Enterprise Fund.

NOTE I I I - DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-Term Debt - Continued

$1,733,773 represents the principal balance remaining on the original loan amount of $2,000,000 for the construction of the South Fayette Water Treatment Plant. This December 2000 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $41,037 beginning February 1, 2002. The interest rate is 5.4% over the life of the loan. The current principal portion of the loan is $71,965. The debt is serviced through the Water System Enterprise Fund.

$1,857,907 represents the principal balance remaining on the original loan amount of $2,000,000 for the construction of the Ellis Road Water Tank. This May 2003 loan was made by GEFA for a period of twenty years and is payable in quarterly installments of $38,997 beginning May 1, 2004. The interest rate is 4.79% over the life of the loan. The current principal portion of the loan is $68,207. The debt is serviced through the Water System Enterprise Fund.

The following is a summary of GEFA loan transactions for the year ended June 20, 2006.

	Balance, July 1, 2005	Additions	Reductions	Balance, June 30, 2006	Current Portion
Quarters Road Water Line Loan	$ 158,289	$ -	$ 42,019	$ 116,270	$ 44,510
Crabapple Water Tank Loan	176,004	-	40,589	135,415	42,783
Phase 1 Water Line Loop Loan	448,533	-	39,613	408,920	41,549
Phase 2 Water Line Loop Loan	779,033	-	69,220	709,813	72,833
Phase 5 Water Line Loop Loan	730,096	-	48,023	682,073	50,769
Phase 3 Water Line Loop Loan	1,283,719	-	77,301	1,206,418	81,368
Phase 4 Water Line Loop Loan	1,614,560	-	79,265	1,535,295	83,385
South Fayette Water Plant Loan	1,801,980	-	68,207	1,733,773	71,965
Ellis Road Water Tank Loan	1,922,942	-	65,035	1,857,907	68,207
Total GEFA Loan Debt	$ 8,915,156	$ -	$ 529,272	$ 8,385,884	$ 557,369

At June 30, 2006, the Water System Enterprise Fund was obligated to make payments of principal and interest on its outstanding Georgia Environmental Facilities Authority (GEFA) loans as follows:

Fiscal years ending June 30,	Principal	Interest	Total Debt Service
2007	$ 557,369	$ 420,491	$ 977,860
2008	586,962	390,898	977,860
2009	592,802	359,910	952,712
2010	547,955	330,489	878,444
2011	576,690	301,754	878,444
2012-2016	3,043,597	1,041,207	4,084,804
2017-2021	1,960,969	359,118	2,320,087
2022-2024	519,540	32,537	552,077
Totals	$ 8,385,884	$ 3,236,404	$ 11,622,288

NOTE I I I - DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-Term Debt - Continued

Certificates of Participation. In June 1998, the County entered into a lease pool agreement with the Georgia Municipal Association (the "Association"). The funding of the lease pool was provided by the issuance of $150,126,000 Certificates of Participation by the Association. The Association passed the net proceeds through to the participating municipalities with the County's participation totaling $5,000,000. The lease pool agreement with the Association provides that the County owns its portion of the assets invested by the pool and is responsible for the payment of its portion of principal and interest of the Certificates of Participation.

The principal of $5,000,000 is due in a lump sum payment on June 1, 2028. Interest is payable at a rate of 4.75% each year. The County draws from the investment to lease equipment from the Association. The lease pool agreement requires the County to make payments back into its investment account to fund the interest requirements of the 1998 GMA Certificates of Participation. The County received a draw for $520,818 during fiscal year 2006. As of June 30, 2006, a total of $6,923,899 has been drawn down for equipment purchases.

Following is a reconciliation of debt disclosures presented above to amounts reported in the statement of net assets:

Governmental Activities	Balance July 1, 2005	Current Year Payments	Current Year Additions	Balance June 30, 2006
Public Facilities Authority	$ 54,420,000	$ 1,165,000	$ -	$ 53,255,000
Certificate of Participation	5,000,000	-	-	5,000,000
	59,420,000	1,165,000	-	58,255,000
Less: current portion of long term debt				(1,220,000)
				$ 57,035,000
Business-Type Activities				
Revenue Bonds	$ 44,270,000	$ 1,530,000	$ -	$ 42,740,000
Less the unamortized portion of				
Refunding difference	(1,667,005)	(116,876)	-	(1,550,129)
Bond discounts	(172,128)	(15,108)	-	(157,020)
GEFA loans	8,915,156	529,272	-	8,385,884
	51,346,023	1,927,288	-	49,418,735
Less: current portion of long-term debt				(2,147,369)
				$ 47,271,366

Changes in Long-Term Liabilities. During the fiscal year ended June 30, 2006, changes occurred in liabilities reported as long-term debt as follows:

Governmental Activities	Balance, July 1, 2005	Additions	Reductions	Balance, June 30, 2006	Due within One Year
Compensated Absences	$ 909,652	$ 1,840,184	$ 833,269	$ 1,916,567	$ 910,961
Revenue Bonds	54,420,000	-	1,165,000	53,255,000	1,220,000
Certificates of Participation	5,000,000	-	-	5,000,000	-
Capital Leases	6,484,442	-	684,800	5,799,642	717,428
Totals	$ 66,814,094	$ 1,840,184	$ 2,683,069	$ 65,971,209	$ 2,848,389
Business-Type Activities					
Compensated Absences	$ 94,778	$ -	$ 2,842	$ 91,936	$ 64,362
Loans	8,915,156	-	529,272	8,385,884	557,369
Revenue Bonds	44,270,000	-	1,530,000	42,740,000	1,590,000
Totals	$ 53,279,934	$ -	$ 2,062,114	$ 51,217,820	$ 2,211,731

The governmental funds typically used to liquidate compensated absences are the general fund, and special revenue funds.

NOTE I V - OTHER INFORMATION

A. Risk Management

Fayette County, Georgia is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance. Settled claims have not exceeded purchased commercial insurance coverage in any of the past three years.

The County established a limited risk management program for workers' compensation during the 1988 fiscal year. The purpose of the Workers' Compensation Self-Insurance Internal Service Fund is to pay workers' compensation claims from accumulated assets of the fund and minimize the total cost of workers' compensation insurance to the County. Specific and aggregate excess insurance is provided through a private insurance carrier.

The County initiated its Dental Self-Insurance Internal Service Fund in the 1991 fiscal year. The purpose of this fund was to pay claims for employees for certain health care expenses incurred up to a maximum of $1,000 per covered individual. Claims are handled by a third party administrator as of June 1, 2005.

Fayette County established its Major Medical Self-Insurance Internal Service Fund in the 1991 fiscal year, and on June 1, 2002 became fully insured. Fayette County no longer carries the specific and aggregate excess insurance through a private concern. This fund is still maintained in the event the Board of Commissioners decide to self-insurance again. The purpose of this fund is to pay claims for employees for certain health care expenses incurred with an unlimited amount per covered individual.

The County initiated its Vision reimbursement plan in the 1997 fiscal year. Employees are reimbursed up to $200 per year per covered individual for out of pocket expenses associated with vision care. Claims are handled by a third party administrator as of June 1, 2005.

All funds of the County participate in these programs and make payments to these Internal Service Funds based on actuarial estimates of the amounts needed to pay prior and current year claims, claim reserves, and administrative costs of the programs. The claims liability of $ 27,372 reported at June 30, 2006, is based on requirements of Governmental Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* which requires that a liability for claims be reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Changes in the funds' claims liability amounts in fiscal years 2005 and 2006 were as follows:

	Beginning of Fiscal Year Liabilities	Current Year Claims and Changes in Estimates	Less Claim Payments	End of Fiscal Year Liabilities
Workers' Compensation Self-Insurance Fund:				
FY 2005	$ 158,446	$ 350,660	$ 377,151	$ 131,955
FY 2006	131,955	168,778	298,224	2,509
Dental/Vision Self-Insurance Fund:				
FY 2005	$ 5,124	$ 230,854	$ 227,162	$ 8,816
FY 2006	8,816	313,992	300,926	21,882
Medical Self-Insurance Fund (EAP):				
FY 2005	$ 1,426	$ 37,995	$ 38,921	$ 500
FY 2006	500	9,981	8,000	2,981

NOTE IV - OTHER INFORMATION - CONTINUED

B Post-employment Healthcare Plan

In addition to providing pension benefits, during FY 2000 the County began to provide funding for certain health care related benefits for retired employees. A majority of the County's employees may become eligible for this new benefit upon reaching the minimum age of 55 and having at least 25 years of service. Continued health care benefits in the form of single coverage will be paid fully by the County from the Major Medical Self-Insurance Fund. This benefit is limited to a period which is shorter of (a) ten years or (b) the length of time it takes for the employee to reach the age at which they become eligible for Medicare benefits. The County has the authority to amend this benefit.

In lieu of having the major medical coverage, an eligible retiree may elect to take a cash payment equal to the total amount of the contributions that the County would have made into the insurance fund on their behalf. Retired employees also have the option to pay the contribution amount to cover their spouse and dependents under the plan.

At June 30, 2006, the County has fifteen (15) employees eligible for this benefit, there are two retirees receiving medical insurance coverage. One of the retirees returned to work during fiscal year 2006. The County finances the plan on a pay-as-you-go basis. For the year ended June 30, 2006 the County paid $4,859 for this benefit.

C. Segment Information Enterprise Funds

The County maintains two enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Water System accounts for the provision of potable water service to the majority of the County citizens. Solid Waste accounts for the closed municipal waste landfills, an operational construction and demolition landfill, and a transfer station, which provides waste disposal services for all citizens.

D. Contingent Liabilities

The County has participated in a number of grant programs funded by certain Federal and State agencies. Several of these programs are subject to program compliance audits and reviews by the grantor, some of which have not been concluded. Accordingly, the County's compliance with applicable grant requirements may be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts to be immaterial based upon previous experience.

The County is a defendant in various litigations. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the County.

E. Employees' Pension Plan

The County has adopted a prototype pension plan administered by the Hartford Insurance. The 401(a) pension plan is a defined contribution (money purchase pension) plan that covers substantially all full time County employees.

NOTE IV - OTHER INFORMATION - CONTINUED

E. Employees' Pension Plan - continued

Under the current provisions, the County is required to contribute an amount equal to 4% of each participant's annual compensation. In addition, the County will match contributions made by an employee to the deferred compensation plan on a 1 for 2 basis up to a maximum contribution by the County of 4%. Contributions are calculated and made on a biweekly payroll basis. The Board of Commissioners establishes required contribution and matching percentages.

Employees become eligible for the plan if they are at least 18 years old and work a minimum of 30 hours per week. Actual participation in the plan begins with the first payroll of the quarter following the completion of a successful probationary period. Participants are 40% vested in the plan after four years of service and 100% vested after five years.

The 401(a) pension plan had total contributions of $1,789,299, of which $1,058,299 is the four percent base contributed by the County. The County's matching portion to the employee contributions to the deferred compensation plan was $730,540. For the fiscal year ended June 30, 2006, payroll covered by this plan was $26.3 million.

F. Joint Venture

Under Georgia law, the County, in conjunction with other cities and counties in the Atlanta, Georgia area, is a member of the Atlanta Regional Commission (ARC). Dues to the ARC are assessed at the County level and are, accordingly, paid by Fayette County. The County's membership dues paid to the ARC for the year ended June 30, 2006 were $102,200. Membership in the ARC is required by the Official Code of Georgia (OCGA) Section 50-8-34 which provides for the organizational structure of the ARC. The ARC board membership includes the chief elected official of each county and various municipalities of the area. OCGA 50-9-30.1 provides that the member governments are liable for any debts or obligations of their ARC. Separate financial statements of the ARC may be obtained from ARC, 40 Courtland Street, NE, Atlanta, Georgia 30303.